

Message Text

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ACTION STR-04

INFO OCT-01 EUR-12 IO-11 ISO-00 STRE-00 SSO-00 NSCE-00

USIE-00 INRE-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 ITC-01 TRSE-00

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NEA-10 /128 W

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FM USDEL MTN GENEVA

TO SECSTATE WASHDC IMMEIDATE 1271

INFO AMEMBASSY OTTAWA

LIMITED OFFICIAL USE SECTION 1 OF 2 MTN GENEVA 1996

ACTION STR

H PASS CODEL

E.O. 11652: N/A

TAGS: ETRD MTN

SUBJECT: US-CANADA BILATERAL CONSULTATIONS ON TARIFF FORMULA

SUMMARY: CANADA (AMB GREY, CLARK, DENIS AND GORE) AND US
(AMB WALKER, MCNAMARA, BALE, HAMMERSCHLAG AND WIGNOT) MTN
DELS MET MORNING OF MARCH 16 AT OUR INVITATION TO CONSULT
ON TARIFF REDUCTION FORMULA AND RELATED ISSUES. AFTER
AMB WALKER PRESENTED US OBJECTIVES AND US FORMULA
(Y EQUALS 1.5X PLUS 50) CANADIANS EXPRESSED STRONG DISAPPOINTMENT THA
T

US FORMULA FAILED TO TAKE INTO ACCOUNT OF MAJOR CANADIAN CON-

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CERNS SUCH AS FULL USE OF US AUTHORITY ON RATES BELOW 5PCT.

AND WOULD NOT PROVIDE RECIPROCITY FOR CANADA. GREY ALSO STRESSED LONG PERIOD OF CONSULTATION NEEDED WITH PROVINCES AND PRIVATE SECTOR AND RESISTED SETTING SPECIFIC TIMETABLE FOR AGREEMENT ON A FORMULA. ALSO CITED BY GREY WAS NEED FOR PARALLEL ACTION ON SECTORS AND AGREEMENT ON EXCEPTIONS PROCEDURES. IN VIEW OF PREVIOUSLY-STATED CANADIAN POSITION, THEIR NEGATIVE RESPONSE TO OUR PROPOSAL WAS NOT SURPRISING. END SUMMARY.

1. AMB WALKER NOTED THE EXTENSIVE CONSULTATIONS WITH THE PRIVATE SECTOR AND THE CONGRESS AND CONSIDERABLE ANALYSIS PRECEDING US OBJECTIONS ON THIS QUESTION. WALKER SAID THAT US OBJECTIVES FOR TARIFF CUTTING IN THE MTN WERE SIGNIFICANT OVERALL REDUCTIONS OF TARIFFS WITH HARMONIZATION THROUGH A HYPOTHESIS WHICH IS MORE AMBITIOUS THAN KENNEDY ROUND HYPOTHESIS OF 50 PER CENT, IS AIMED AT REDUCING DUTIES WITHIN THE TARIFF DISTRIBUTION RANGE IN WHICH A LARGE MAJORITY OF DEVELOPED COUNTRY RATES NOW FALL, INSURES MORE QUANTITATIVE ACCESS AMONG DEVELOPED COUNTRY MARKETS, AND PROVIDES MORE SECURE AND MORE FAVORABLE ACCESS FOR LDC EXPORTS. AS AGREED IN TPRG MEETING MARCH 13, WALKER STATED THAT IN US VIEW THAT BEST HYPOTHESIS TO ACHIEVE THOSE GOALS WOULD BE Y EQUALS 1.5X PLUS 50, UP TO A MAXIMUM 60 PERCENT REDUCTION ON EACH ITEM AND APPLIED TO TARIFFS ON ALL PRODUCTS. IN REVIEWING THESE OBJECTIVES AND ARTICULATING US POSITION. WALKER DREW ON POINTS IN THE APPROVED TPRG POSITION PAPER.

2. GREY NOTED AT THE OUTSET THAT US SHOULD NOT BE SURPRISED AT NEGATIVE CANADIAN REACTION TO US PROPOSAL. CANADIAN VIEWS WELL-KNOWN TO DEL AND TO WASHINGTON. DESPITE THIS, HE SAID, US HAS APPARENTLY CHOSEN TO IGNORE INTERESTS OF ONE OF ITS LARGEST TRADING PARTNERS AND CANADA WOULD HAVE TO DRAW ITS OWN CONCLUSIONS FROM THIS DECISION. GREY POINTED OUT US PROPOSAL WOULD MAKE IT IMPOSSIBLE FOR CANADA TO ACHIEVE RECIPROCITY BECAUSE LESSER CUTS WOULD BE MADE IN THE TARIFF AREA WHERE CANADA HAS THE BULK OF ITS EXPORTS. LESS THAN FULL USE OF US AUTHORITY ON LOW RATES WOULD BE LIMITED OFFICIAL USE

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VIEWED NEGATIVELY BY CANADIAN PRIVATE SECTOR. IN RESPONSE TO AMB WALKER'S OPENING REMARK THAT WE HOPE AGREEMENT ON TARIFF CUTTING HYPOTHESES COULD BE REACHED AS SOON AS POSSIBLE (PREFERABLY BY THE SUMMER BREAK) GREY STATED THAT IT WOULD BE COUNTERPRODUCTIVE TO SET A TIMETABLE. HE INDICATED THAT EXTENSIVE CONSULTATION WOULD BE REQUIRED WITH THE PRIVATE SECTOR AND PROVINCIAL OFFICIALS AND IMPLIED THAT CANADA MIGHT NOT BE ABLE TO TAKE A

DEFINITIVE STAND UNTIL LATE IN THE YEAR.

3. IN ELABORATING US POSITION, WALKER POINTED OUT THAT THIS WAS FIRST TIME US HAD EMBRACED HARMONIZATION AS AN OBJECTIVE AND THAT SIGNIFICANCE OF THIS POLICY DECISION SHOULD NOT BE UNDERESTIMATED. HE DEMONSTRATED THAT THE HARMONIZATION ELEMENT IS ENTIRELY CONSISTENT WITH ARGUMENTS TRADITIONALLY ADVANCED IN SUPPORT OF HARMONIZATION. I.E., IT CUTS AVERAGE INDUSTRIAL TARIFFS (6.2 PCT IN GATT TARIFF STUDY OF 11 COUNTRIES) AND BELOW AVERAGE TARIFFS BY LESS THAN IT CUTS ABOVE AVERAGE TARIFFS. BY SUBJECTING HIGHER THAN AVERAGE TARIFFS TO A 60 PCT CUT, CANADIAN ACCESS TO WORLD MARKETS WOULD BE ENHANCED. CANADIAN CONCERNS ABOUT TARIFF ESCALATION WERE ALSO TAKEN INTO ACCOUNT IN THIS RESPECT. AS FOR CANADIAN INTEREST IN LOW RATES, ROUNDING OF FORMULA COULD RESULT IN A LOWEST NEW RATE OF 1 PCT, 0.5 PCT FREE DEPENDING ON USE OF THE ROUNDING AUTHORITY IN TRADE ACT. THE US WAS NOT TAKING A POSITION AT THIS TIME BUT WOULD CONSIDER THE VIEWS OF OTHER DELEGATIONS.

4. GREY REITERATED THAT US ACTION ON TARIFFS 5 PCT AND BELOW THAT FELL SHORT OF ELIMINATION OF DUTIES WOULD BE CONSIDERED BY CANADA, AND A SIGNAL THAT US INTENDED TO KEEP BARRIERS IN PLACE AGAINST CANADIAN EXPORTS. HE FURTHER STATED THAT CANADA UN- PREPARED TO COMPENSATE US FOR TARIFF CUTS FROM 5 PCT TO 2 OR 3 PCT BECAUSE THEY WERE NOT SUFFICIENTLY SUBSTANTIAL.

5. US POINTED OUT THAT CANADA WAS ASKING FOR TOTAL ELIMINATION OF DUTIES ON THE BULK OF ITS TRADE TO THE US WHILE ONLY A VERY SMALL PERCENTAGE OF US EXPORTS TO CANADA FELL IN THE 5 PCT AND BELOW RANGE, AND THUS LIMITED OFFICIAL USE

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WOULD PROVIDE VERY LITTLE RECIPROCITY FOR US. GREY REPLIED THAT CANADA WAS PREPARED TO PAY FOR ELIMINATION OF DUTIES AND ASKED THAT THE US FOCUS MORE ON QUALITY OF CONCESSIONS AND LESS ON COMPUTERIZED STATISTICS.

6. IN DISCUSSING EXCEPTIONS GREY LAID STRESS ON THE NEED TO RECOGNIZE THAT COUNTRIES (SUCH AS CANADA) THAT HAD A NARROW RANGE OF EXPORTS COULD BE SEVERLY AFFECTED BY EX- CEPTIONS OF ITEMS OF PARTICULAR INTEREST TO THAT COUNTRY, EVEN THOUGH THE TOTAL TRADE VALUE OF THE EXCEPTION IN TERMS MIGHT NOT BE LARGE. HE SAID THAT SOME LANGUAGE TO THAT EFFECT NEEDED TO BE INSERTED IN THE AGREEMENT REACHED AMONG FORMULA COUNTRIES ON TARIFF CUTTING HYPO- THESIS, ALTHOUGH INDIVIDUAL EXCEPTIONS NEED NOT BE KNOWN AT THAT TIME, BEFORE CANADA COULD AGREE TO ACCEPT ANY

FORMULA. FYI: THIS POSITION IS A LITTLE LESS RIGID THAN
GREY HAS EXPRESSED RECENTLY IN THAT HE IS NO LONGER
APPARENTLY ADOPTING THE STANCE THAT SPECIFIC EXCEPTIONS
MUST BE KNOWN BEFORE CANADA COULD AGREE TO A FORMULA.
END FYI. WALKER REPEATED THAT THE US WAS WILLING TO
COMMIT ITSELF TO A HYPOTHESIS CALLING FOR DEEP

CUTS ACROSS-THE-BOARD, BUT COULD NOT DECIDE OR SET FORTH
A US POSITION ON RULES FOR EXCEPTIONS UNTIL THE HYPO-
THESIS IS DECIDED AND WE HAVE CONSULTED THE PRIVATE SECTOR
AND CONGRESS. IN OUR VIEW, HOWEVER, ALL COUNTRIES SHOULD
USE MAXIMUM RESTRAINT TO MINIMIZE EXCEPTIONS.

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ACTION STR-04

INFO OCT-01 EUR-12 IO-11 ISO-00 STRE-00 SSO-00 NSCE-00

USIE-00 INRE-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

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NSC-05 PA-01 AID-05 CIEP-01 SS-15 ITC-01 TRSE-00

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7. RESPONDING TO THE STATEMENT THAT THE US WOULD REVIVE ITS CROSS-NOTIFICATION PROCEDURE FOR LDC'S, GREY STATED THAT HE SAW NO PARTICULAR DIFFICULTY WITH THIS APPROACH, AND SAID CANADA ITSELF WOULD HAVE SOME SPECIFIC REQUESTS TO MAKE OF SELECTED LDC'S.

8. GREY REITERATED CANADIAN CONCERN OVER LACK OF PROGRESS ON SECTORS, AND SAID THAT US TARIFF SYMPTOM (WHICH DOES NOT USE FULL REDUCTION AUTHORITY) MADE THE SECTOR APPROACH FOR CERTAIN COMMODITIES EVEN MORE NECESSARY. HE SAW LITTLE CHANCE OF CANADA ACCEPTING ANY TARIFF FORMULA IN THE ABSENCE OF PARALLEL PROGRESS ON SECTORS. GREY OBSERVED, IN THIS CONNECTION, THAT HIS RECENT VISIT TO WASHINGTON HAD LED HIM TO BELIEVE THAT THE LIMITED OFFICIAL USE

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US MIGHT SOON BE PRESSING FOR A STEEL SECTOR. CLARK COMMENTED THAT CANADA AND THE US SHARED AN INTEREST IN ELIMINATING THE PREFERENTIAL MARGINS ENJOYED BY THE SCANDINAVIANS IN THE EC MARKET FOR PAPER. BUT THE US FORMULA PROPOSAL WOULD NOT REDUCE THE MARGIN AS MUCH AS THE CANADIAN SECTOR APPROACH WHICH CALLS FOR HARMONIZATION AT THE MAXIMUM-REDUCED US RATE. WE RESPONDED THAT OUR FORMULA WOULD PROVIDE FOR A 60 PERCENT REDUCTION OF EC PAPER RATES, AN OUTCOME WHICH OUR INDUSTRY MIGHT WELL FIND SATISFACTORY.

9. GREY TOOK PAINS TO POINT OUT THAT CERTAIN CANADIAN INDUSTRIES (E.G. REFRIGERATORS) WOULD HAVE SUBSTANTIAL READJUSTMENT DIFFICULTIES IN THE WAKE OF ANY SUBSTANTIAL TARIFF CUT, AND THAT JOB LOSSES IN THESE INDUSTRIES WOULD HAVE TO BE CAREFULLY WEIGHED AGAINST JOBS CREATED IN EXPORT INDUSTRIES. GREY USED THIS ARGUMENT TO REINFORCE HIS COMMENTS ON CANADIAN NEED FOR RECIPROCITY FOR ITEMS OF PARTICULAR EXPORT INTEREST TO CANADA, BUT HIS ARGUMENT IMPLIED THAT CANADA WOULD FIND IT DIFFICULT TO EXPOSE A SUBSTANTIAL PART OF ITS DOMESTIC INDUSTRIES TO INCREASED IMPORT COMPETITION EVEN IF SUBSTANTIAL NEW EXPORT OPPORTUNITIES WERE CREATED BY TARIFF REDUCTIONS IN OTHER COUNTRIES.

10. AMONG THE MORE IMPORTANT SPECIFIC QUESTIONS RAISED BY CANADA WERE THE FOLLOWING:

(A) DOES THE US INTEND TO PRESS CANADA TO REDUCE ITS 15 PERCENT TARIFF ON AUTOMOBILES IN VIEW OF THE US-CANADIAN AUTOMOTIVE PACT, OR WOULD THE US PREFER CANADA TO TREAT THE ITEM AS AN EXCEPTION? WE RESPONDED THAT IN VIEW OF OUR MUTUAL INTEREST IN THIS SECTOR, WE WOULD LIKE TO CONSULT ON THE BEST MEANS OF HANDLING THE PROBLEM.

(B) COULD THE US ON AN AD REFERENDUM BASIS GO BEYOND ITS AUTHORITY IN REDUCING RATES? WE POINTED OUT THIS WAS THEORETICALLY POSSIBLE IN A SECTOR APPROACH IF THE DEAL WERE SUFFICIENTLY ATTRACTIVE TO CONVINCE CONGRESS TO ACCEPT IT. WE ALSO REMINDED THE CANADIANS THAT ALTHOUGH OUR FORMULA DID NOT SPECIFICALLY PROVIDE LIMITED OFFICIAL USE

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FOR ELIMINATION OF DUTIES, WE DID NOT RULE OUT THE POSSIBILITY IF PAYMENT WAS SATISFACTORY.

(C) THE CANADIANS ASKED ABOUT THE EC REACTION TO INCLUDING AGRICULTURAL PRODUCTS IN THE FORMULA COVERAGE, AND WONDERED WHETHER THIS MIGHT NOT LEAD TO A BATTLE AT THE TARIFF MEETING? WE REPLIED THAT THE EC, AS COULD BE EXPECTED, DID NOT AGREE WITH OUR APPROACH TO AGRICULTURE BUT WE EXPECTED THAT THE ISSUE WOULD NOT BE MET HEAD-ON UNTIL LATER IN THE DAY.

11. AS TO THE SCENARIO FOR THE TARIFF GROUP MEETING, THE CANADIANS STATED THAT TWO COURSES WERE OPEN TO THEM: EITHER NOTE THE US STATEMENT WITH INTEREST AND REFER THE PROPOSAL TO OTTAWA FOR STUDY, OR COMMENT MORE SUBSTANTIVELY ON THOSE ASPECTS OF THE FORMULA WHICH MOST DIRECTLY CONCERN CANADA. GREY WAS NOT PREPARED TO SAY WHICH LINE WOULD BE FOLLOWED.

12. COMMENT: CANADA'S UNFAVORABLE REACTION TO THE US PROPOSAL WAS NOT SURPRISING. UNLIKE THE EC, CANADA FOCUSED LITTLE ATTENTION ON THE HARMONIZATION ASPECT BUT CONTINUED TO PRESS HARD ON THE ELIMINATION OF LOW DUTIES. IT WAS CLEAR FROM ITS COMMENTS, THAT CANADA WOULD LIKE TO FIND SOME WAY OF BEING A FORMULA COUNTRY WITHOUT HAVING TO APPLY THE FORMULA IN THE SAME FASHION AS OTHERS. IT COULD LAY THE GROUNDWORK FOR SUCH AN APPROACH BY POINTING OUT THAT FAILURE TO ELIMINATE DUTIES ON LOW RATES LIMITS CANADA'S CHANCES FOR RECIPROCITY. DEL BELIEVES SUBSTANTIAL EFFORTS WILL BE NEEDED TO KEEP CANADA IN LINE AS A FULL FORMULA COUNTRY. WALKER

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